

## **INTERCARRIER COMPENSATION PROPOSAL**

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## **INTERCARRIER COMPENSATION PROPOSAL**

This intercarrier compensation proposal is based on the NARUC Statement of Principles and the six workshops the NARUC Task Force on Intercarrier Compensation has held. As will be explained below, these intercarrier compensation rules would apply in the absence of a negotiated agreement between any two carriers.

### **I. Origination and Termination**

#### **Principles**

- 1. Intercarrier compensation for origination and termination should be unified at rates that are based on forward-looking economic (not embedded) costs and that are economically viable in a competitive market environment. Unified means that the rates should be the same for all traffic in both interstate and intrastate jurisdictions, the same for all interconnecting carriers, and the same for exchange and exchange access interconnection.**

*Note: The Task Force has not reached agreement on whether there should be an origination rate. Accordingly, two alternatives are presented. Both alternatives are compatible with the proposal for termination rates described in 3. below.*

#### **Origination Rates**

##### ***Alternative 1:***

- 2. There should not be a mandated origination rate for intercarrier traffic.**

The bedrock for the Task Force's work in this area is the principles established in I.1. immediately above. These principles have been with us from the beginning and no participant in our many workshops has ever challenged them. Key principles are that intercarrier compensation rates should be unified and competitively viable. Considerable care was taken in defining what unified means.

No member of the Task Force started out with an a priori preference for no origination charge. As the discussion progressed over the course of many months, it became increasingly clear that the proponents of an originating charge had not yet come up with a proposal that conforms to our principles.

Does any origination rate plan proposed to date establish rates that are "the same for all traffic in both intrastate and interstate jurisdictions, the same for all interconnecting carriers, and the same for exchange and exchange access interconnection?" In the case of the proposal below, third party "retail service providers" (read IXCs) that use equal access are singled out for a usage based charge. Only wireline carriers can apply this charge; wireless carriers cannot apply an origination charge. No charges apply when a carrier provides originating access to itself or, apparently, to its affiliates (if current merger proposals are consummated, the standard case). Charges are not the same for exchange and exchange access interconnection.

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This Task Force chose to make its proposal under the assumption that existing Federal law remains in effect. That means that the express provisions of Sections 251 and 252 of the Communications Act apply to “reciprocal compensation arrangements for the transport and termination of telecommunications.” If we truly desire a unified intercarrier compensation regime, then that means all traffic must comply with these sections in identical fashion.

Some are concerned that a zero origination rate will lead to inefficient overuse of the local network. Consumers have spoken overwhelmingly about flat rates for both “local” and “toll” services. Carriers routinely offer flat rate plans for local and toll calling and the sky has not fallen. In any case, it is underutilization of the local network, not overutilization that should be our concern. Access lines are being disconnected and toll usage is migrating to wireless services.

As was pointed out in our workshops, if one is concerned with recovering equal access costs, the appropriate way to do so is via a flat charge on end user bills. Equal access costs are not traffic sensitive and trying to recover those costs via a traffic sensitive charge will only lead to inefficiency.

An origination charge is incompatible with Section III. in its current form because the edges are defined with respect to termination only.

Carriers would remain free to negotiate an origination rate if they choose.

Are there versions of an origination charge that are compatible with the Task Force’s principles? Quite possibly so. We should continue the search.

### ***Alternative 2:***

- 2. Originating access payments should be required whenever a retail service provider (such as an IXC) exercises a legal right to use another carrier’s facilities to originate switched traffic. Payments should be made to the LEC that owns or controls the end user’s originating facilities. The originating rate would be \$0.002 per-minute.**

Originating access charges compensate carriers who own or control local exchange facilities (ordinarily LECs) when the law imposes “equal access” obligations that require them to allow other carriers to establish a retail relationship with the LEC’s subscriber. No originating access will be paid where a carrier originates toll traffic on its own network or where, as with wireless carriers, there is no equal access obligation. Access payments are paid to the carrier that owns or controls the loop and switching facilities.

The originating rate here will be lower than most existing interstate access rates, and substantially lower than many intrastate access rates. This should largely eliminate any incentive for originating intercarrier compensation charges to promote bypass to other networks, such as cable modem, DSL and special access.

Several NARUC policy principles support a nonzero origination charge. First, intercarrier compensation should ensure that requested carriers have an economic incentive to interconnect, to carry requested traffic, and to provide high-quality service to requesting carriers. A zero access rate gives originating customers no incentive to

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terminate an IXC-based call, and thus will promote switched network usage inconsistent with its engineering design. Second, intercarrier compensation should minimize arbitrage opportunities and be resistant to gaming. A zero originating access rate will create opportunities for IXCs to export current costs to their customers' LECs. This could take the form of retail customers forming IXCs to avoid special access costs or ISPs forming IXCs to reduce their switched network costs. Third, an originating LEC must be able to "recover an appropriate portion of [its] applicable network costs" from intercarrier compensation; and under 47 U.S.C. § 254(k), intercarrier compensation must make a reasonable contribution to the joint and common cost of providing services (such as local exchange) that are supported by universal service. Fourth, intercarrier compensation should be competitively and technologically neutral. A tiered origination charge is competitively neutral if, as recommended here, all carrier pay the same rate. Fifth, intercarrier compensation should minimize the cost impact on both Federal and State universal service support programs because increased intercarrier revenue generally reduces demand for universal service. Finally, a nonzero origination charge will reduce the incentive to use the switched network to originate "spam."

### **Termination Rates**

- 3. In the absence of a negotiated intercarrier agreement, ILECs should be allowed to adopt, without a cost showing, unified termination charges by category of wire center as follows:**

<b>ACCESS LINES IN WIRE CENTER</b>	<b>APPROXIMATE PERCENTAGE OF ACCESS LINES</b>	<b>TERMINATION RATE PER-MINUTE</b>
<b>Greater than 5000</b>	<b>90%</b>	<b>\$.001</b>
<b>500-5000</b>	<b>9%</b>	<b>\$.005</b>
<b>Less than 500</b>	<b>1%</b>	<b>\$.02</b>

If a negotiated intercarrier agreement cannot be reached, ILECs would be allowed to adopt these nationally uniform termination charges in order to avoid unnecessary costs associated with individual State proceedings for each company. They are reasonable approximations of the rates that meet the Section 252 (d)(2) standard of "additional costs of terminating such calls." Carriers remain free to negotiate other arrangements.

As explained below, this proposal contemplates adoption of the Intercarrier Compensation Forum's edge proposal. The default rates recommended here are contingent on adoption of those edge definitions.

### **State Arbitration**

- 4. If a negotiated intercarrier agreement is not reached and, in lieu of adopting the default rate for termination described in 3. above, an ILEC should be allowed to petition the appropriate State commission for an arbitration proceeding in accordance with the provisions of Section 252 of the Communications Act. The cost standard to be employed in these arbitration**

**proceedings should be the “additional costs of terminating such calls.” State commissions should be able to consolidate the arbitrations involving rural telephone companies and designate rates that would be applicable for all of the rural companies involved.**

This process is based on the statutory provisions that apply to reciprocal compensation today. The default rate is intended to avoid the need for these proceedings in most cases, but this provision acknowledges carriers’ statutory right to make a cost showing for a higher rate.

#### **Out of Balance Restriction**

- 5. Unless the provisions of a negotiated intercarrier agreement stipulate otherwise, if the ratio of terminating to originating traffic between any two carriers is out of balance by more than 3 to 1, then the rate for originating and terminating traffic over and above this limit should fall to the applicable rate of the lower cost carrier.**

To the extent that terminating intercarrier compensation exceeds marginal cost, carriers have an incentive to engage in arbitrage, a concern because of the higher rates established for smaller wire centers. This provision is intended to limit the amount of arbitrage that takes place.

- 6. All CLECs, including but not limited to CMRS providers and cable telephony providers, should be permitted to adopt unified origination and termination charges no greater than those of the ILEC serving the same area.**

This CLEC policy is based on CBICC's presentations at our Task Force meetings.

#### **State Approval of Voluntary Agreements**

- 7. Carriers should be free to negotiate other intercarrier compensation arrangements, including bill and keep, on a voluntary basis. Negotiated interconnection agreements will be subject to the filing and review provisions of 47 U.S.C. 252.**

The role of State commissions and the ability of carriers to negotiate something other than the default rates are critical components of the proposal. In order to make sure all carriers have an opportunity to know and opt into negotiated rates other than the default rate, and to ensure that State commissions are cognizant of negotiated rates, the filing (and attendant opt-in opportunity) and review provisions should be mandatory rather than permissive.

## **Capacity Charges**

- 8. LECs should be permitted to convert the per-minute termination charges described in 3.–4. above to equivalent capacity charges at any time. That conversion can be either just for ports dedicated to a single carrier's terminating traffic, or for these ports, two-way ports, and common ports. The FCC should conduct a proceeding to determine how per-minute termination charges will be converted to capacity charges on a revenue neutral basis. The goal is to convert all per-minute termination charges to port charges within five years.**

This policy of converting from per-minute intercarrier compensation to capacity or port charges is based on the EPG plan. Capacity charges more closely follow cost causation and avoid many of the administrative and enforcement problems associated with per-minute charges. As EPG recognizes, suitable methods must be found for applying capacity charges to two-way and common ports. Conceptually, this might be done by reserving portions of the rated capacity of the trunk group for an individual carrier's terminating traffic.

## **Transition**

- 9. Carriers should transition their intercarrier compensation for origination and termination from the level that existed at the beginning of the transition to the level called for in the plan in four equal steps at the beginning of the first through fourth years that the plan is in effect. The FCC should prescribe the methodologies to be used by price cap and rate of return carriers for this transition.**

This transition matches the increases in SLCs at the beginning of the first four years of the plan. The State Allocation Mechanism ("SAM") is in effect at the beginning of the fourth year. See II.7 below.

## **Phantom Traffic**

- 10. No LEC should be required to terminate calls if the call records do not permit billing for terminating access, so long as it participates in an industry process designed to identify calls that have been blocked for this reason and provide real-time resolution. If the carrier seeking to terminate traffic to the LEC disputes the LEC's determination, it should have the option of referring the dispute to the appropriate State commission for resolution. Upon receiving notice that the dispute has been referred to a State commission, the LEC should carry the disputed traffic until the State commission has acted.**

- 11. Tandem owners must participate in a program designed to eliminate phantom traffic, including performing screening of call records if necessary.**

These provisions would establish a process that resolves the issue of compelling LECs to terminate traffic for which they do not receive compensation. This issue is resolved in the longer term by adopting capacity or port charges.

## **VOIP**

- 12. The intercarrier charges for origination and termination contained in this proposal should not apply to Voice Over Internet Protocol ("VOIP") except to the extent that VOIP calls make use of the public switched network for origination and/or termination. Additional work is required to operationalize this provision.**

There was widespread agreement at the workshops that this plan should not apply to VOIP except when VOIP services exchange traffic with the public switched network. At Workshop VI in Washington D.C., there was discussion about the need for further specificity in order to ensure that the intent of this provision is clear.

## **II. Universal Service**

### **Principles**

- 1. Universal service funding should be technology neutral. Carriers should not experience changes in universal service funding based upon technological changes in their networks, i.e., converting from circuit-switched to IP. Funding should be based on the most cost effective and efficient way to provide supported services. The technology employed must be capable of evolving to provide broadband services and must not constitute a barrier to providing advanced services. Definitions of supported services should be modernized and made technology neutral.**

ARIC made effective presentations at our meetings in Washington and Nashville about the need for universal service funding to be technology neutral.

- 2. Support provided to high cost rural areas should not be based on whether that area is served by a "rural" or a "non-rural" carrier.**

A deficiency of the current approach to universal service is that support is often not provided for rural high cost exchanges if a "non-rural" carrier serves them. The adverse consequences of this deficiency have been widely discussed. It is unreasonable to expect non-rural carriers to subsidize their rural high cost exchanges in a competitive environment.

## **Contributions to Universal Service Fund**

- 3. The basis for universal service contributions should be expanded. A unit charge for connections, bandwidth, and possibly telephone numbers is the best approach proposed to date.**

There has been general recognition during our Task Force meetings that the current interstate revenue base of the Federal Universal Service Fund cannot be relied upon for the future. Connections, bandwidth, and possibly telephone numbers have been identified as potential replacements.

## **Access Charge Transition Fund, Subscriber Line Charges, and the Transitional Rate Benchmark**

- 4. A new "Access Charge Transition Fund" ("ACTF") should be created within the Federal Universal Service Fund.**
- 5. Reductions in intercarrier compensation in both the intrastate and interstate jurisdictions for States participating in the plan should be recovered through a combination of the following:**
  - a. Carriers in those States could increase each of their Federal subscriber line charges (SLCs) at the beginning of each year for four years. The maximum increase would be limited by the following restrictions:**
    - i. the resulting SLC revenue increase for each carrier in each State could not exceed the intercarrier compensation revenue loss for each carrier in each State.**
    - ii. the resulting local rate plus intrastate and interstate SLCs and comparable mandatory charges for each carrier in each State in which it operates could not exceed a level established by the FCC for the purpose of ensuring reasonable comparability of rates (the "transitional rate benchmark"). The Commission would increase the transitional rate benchmark over time so as to avoid rate shock and ensure a smooth transition. The permanent level of the benchmark is established in 8. below. For the purposes of this and the following subsection, a separate determination would be made each year as to residential and business SLCs.**
    - iii. for carriers with Local Subscriber Rate Effort (LSRE) greater than or equal to the Minimum Rate Effort Standard (MRES) , no individual SLC could increase by more than \$1.00 per month in each of the four years.**
      - (1) The LSRE includes the State basic local service rates, (assuming usage of 1,000 local MOUs or 200 local calls for**

measured service plans) plus all current State and Federal SLCs, but does not include State universal service, E-911, taxes and other mandatory charges. The LSRE will be certified annually by State commissions, which generally have knowledge of local rate plans. If the carrier is not subject to the State commission's jurisdiction, the carrier will directly certify its LSRE to the FCC.

(2) The MRES will be \$18.50 for residence service and \$21 for business service in the first year. The MRES for both residence and business will increase by \$1 each year.

iv. for carriers with LSRE less than the MRES, no individual SLC could increase by more than \$2.00 per month in each of the four years. This will move rates closer to comparable rates established in 8. below.

b. Carriers could receive ACTF support for their intercarrier compensation reductions remaining after SLC increases for three years, subject to the following limitations. After that time, carriers would receive support via the State Allocation Mechanism ("SAM"):

i. ACTF support would be available only where the participating State commission makes a certification similar to that contained in § 54.314 of the FCC's rules. The FCC would conduct this certification process if the State lacks legal authority or declines to do so.

ii. Regardless of the actual increase in SLCs implemented by a carrier pursuant to a. above, ACTF support would be calculated as if the maximum SLC increase permitted by a. above had been implemented.

This version of the proposal adopts a fundamentally different approach to the determination of permissible SLC increases. It cannot be directly compared to the ICF proposal or any other proposal.

The Task Force has adopted as a basic principle a transitional rate benchmark to ensure that rates are affordable and reasonably comparable, as required by statute. The program of SLC increases is designed to bring rates into line with the benchmark and to manage the size of the Federal Universal Service Fund. This transitional benchmark compares the actual level of the local rate plus intrastate and interstate SLCs and comparable mandatory charges to the rate benchmark. This inclusive benchmark is designed to measure the total rate actually paid by consumers to obtain telephone service, rather than jurisdictional or service components of the total rate.

As described in 8. below, at the end of the transition period, the permanent rate benchmark is to be set at 125% of the average urban rate. The FCC is charged with establishing the level of the rate benchmark for each of the three years of the transition as well as the level of the permanent rate benchmark. This phase-in approach is adopted in order to avoid rate shock, to ensure a smooth transition to the permanent benchmark, and

to match the phased reduction in intercarrier compensation. The Task Force does not have adequate quantitative information to establish the levels of the rate benchmark.

In each year, carriers are allowed to increase each of their individual SLCs in order to recoup their intercarrier compensation losses up to the point at which the rate benchmark is reached and no higher. If local rates are less than a minimum rate effort standard, larger increases are provided. Once the benchmark is reached, any remaining intercarrier losses are recovered from the ACTF if certain conditions are met. The effect is that carriers with very low rates will increase their SLCs each year more than carriers with higher rates. Carriers with rates at or above the benchmark will not increase their SLCs at all and will be eligible for ACTF support for the entirety of their intercarrier compensation losses if certain conditions are met.

To further protect consumers, caps of \$1.00 and \$2.00 are established as the maximum amounts by which any SLC may increase in a given year. Carriers that are affected by this maximum increase would be eligible to recover their losses from the ACTF, again if the conditions in 5.b. are met. While a lower cap might be preferable in some respects, a lower cap results in a higher burden on the Federal Universal Service Fund. Carriers that increase their SLCs by the maximum amount are those with the lowest rates and it is reasonable to expect them to move toward the rate benchmark by these larger but measured steps.

Together with the lifeline exemption described in the next section, these provisions will ensure that rates are affordable and reasonably comparable as the SLCs are increased during the transition. Total rates will become more comparable as the transition progresses. Carriers with the highest rates will increase their SLCs the least and carriers with the lowest rates will increase their SLCs the most. Some carriers may not increase their SLCs at all in order to ensure affordable and reasonably comparable rates.

This plan does not ensure revenue neutrality, but it does aim to give carriers maximum flexibility in recovering lost intercarrier access revenues consistent with consumer protection. Carriers are only given the opportunity to recoup their intercarrier compensation losses through increased SLCs, if they so choose, but the maximum permissible SLC increase is used as an offset to ACTF support. ACTF support is not automatic, but is only available if the conditions outlined above are met. The rate tests are applied to the sum of local rates, intrastate and interstate SLCs and comparable mandatory charges.

It is important to emphasize that the ICF plan increases SLC caps by prescribed amounts whereas the Task Force sets limits on the actual increase in any SLC in any given year from its current level, whether or not it is currently at the cap. The ICF plan does not ensure that the resulting rates are reasonably comparable, while the Task Force plan does. It is for these reasons that the plans are not directly comparable.

### **Lifeline Exemption**

- 6. Lifeline customers should be exempt from any incremental increase in monthly charges that results from intercarrier compensation restructuring. This exemption includes the net impact of unit charges imposed to fund universal service.**

**State Allocation Mechanism (“SAM”) and Permanent Rate Benchmark**

- 7. Within three years, the FCC should establish and put into effect a mechanism for determining the amount of the Universal Service Funds for high cost and low income programs to be distributed to accounts for the benefit of individual States, i.e. the SAM. The total amount of the funds provided to each State each year should be:**
  - a. not less than the funds distributed to recipients in that State in 2004 for the applicable programs;**
  - b. sufficient to ensure that all States have adequate funds to meet the standards prescribed in 254 (b)(3) of the Communications Act.**
- 8. After three years, the “permanent rate benchmark” should be set at 125% of the average urban rate, inclusive of interstate and intrastate SLCs and comparable mandatory charges. The rate benchmark should be used by the FCC as the basis for determining the need for universal service support after the initial three-year period.**

One of the principles established by Congress in 47 U.S.C. § 254(b) is that there should be “specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.” As the Tenth Circuit Court recently noted in *Qwest II* at 19:

As we explained in *Qwest I*, the Act “plainly contemplates a partnership between the Federal and state governments to support universal service.” 258 F.3d at 1203. The terms of the Act evidence recognition of concurrent state authority. . .

This proposed partnership between Federal and State regulators fully reflects both the letter and the spirit of 47 U.S.C. § 254 and avoids a jurisdictional fight over the setting of intrastate rates. The FCC would establish guidelines and review State programs for compliance with the guidelines.

There would be no need to maintain separate support mechanisms for rural and non-rural carriers. This better reflects the fact that there is wide disparity among States in the proportion of rural areas that are served by rural carriers, however defined.

There is widespread agreement on the need for greater accountability by the recipients of universal service funds. States are in a much better position to ensure this accountability than USAC or the FCC, even where local rates have been deregulated.

Under the SAM approach, a State commission that designates an additional ETC will know that the funds given to the new ETC will come from the State’s allocation, and so will have an incentive to weigh the costs and benefits of the designation.

As discussed below, State commissions are in the best position to determine the distribution of Federal Universal Service Funds intended to provide support in their States. The FCC should determine an overall allocation to each State, based on a funding formula or model and the benchmark for local revenues described in 8. below.

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Paragraph 8 above establishes a rate standard of 125 percent. This is less than the 138 percent rate standard struck down by the Tenth Circuit in *Qwest II*. The participants anticipate that high-cost States will accept this number as a reasonable interpretation of section 254 of the Act, yet the number is high enough to avoid unreasonable increases in the size of the universal service fund.

- 9. A State commission that participates in unified intercarrier charges should determine the allocation of funds within its State, subject to FCC guidelines and review. State commissions are in the best position to determine the use of Universal Service Funds within their States.**

Accountability to the public for the use of Universal Service Funds is extremely important.

- 10. Where a State does not establish an allocation of funds as described above or the State allocation is inconsistent with Section 254(b)(3) of the Communications Act, the FCC should establish a mechanism to allocate the funds available for that State.**

This provision allows the FCC to determine the distribution of funds within a State that, for any reason, does not act in accordance with the statute and FCC guidelines.

- 11. States should condition distribution of universal service` funds on an appropriate demonstration that the carrier is providing quality services at reasonably comparable rates throughout its supported areas. Carriers receiving support for high cost exchanges must demonstrate that the funds received are being used for rate relief or infrastructure development in those exchanges.**

- 12. States that participate in unified intercarrier charges should be allowed to adopt a State specific increment to the Federal funding mechanism for Federal USF that would be used to supplement Federal USF funds in that State. To date connections, bandwidth, and numbers have been identified as potential candidates for assessing the State specific increment.**

It may be very difficult for a State to maintain a separate universal service fund in the future. This provision allows a State to impose an increment to the Federal Universal Service charge, applicable only within that State, if the State commission finds that it is necessary in order to supplement the funds received from the Federal Universal Service program.

- 13. USAC or its successor designated by the FCC should remain as the administrator of the USF and the actual entity receiving and disbursing SAM funds. Disbursements would be made subject to direction by the responsible State commission or, where the State commission does not act, by the FCC.**

- 14. The FCC should permit carriers to be eligible for participation in individual USF mechanisms without being eligible for participation in other mechanisms.**

As an example, consideration should be given to allowing carriers to receive Lifeline funding even if they are not eligible telecommunications carriers for purposes of high cost support.

### **III. Transport and Tandem Transit/Edge<sup>1</sup>**

#### **Tentative Adoption of ICF Proposal**

- 1. The ICF proposal with regard to transport and tandem transit should be tentatively adopted as proposed subject to 2., 3., and 4. below. The ICF Proposal envisions that State Commissions under Section 252 of the 1996 Act would hear disputes between carriers.**
- 2. The possibility of combining the hierarchical and non-hierarchical categories in the ICF proposal should be explored. CBICC representatives proposed that the hierarchical carrier and non-hierarchical carrier distinction in the ICF proposal be eliminated. It is not completely apparent that this legacy distinction based on historical network architectures is appropriate. The CRTC category should be retained in either case. The technical implications of the CBICC proposal should be explored further.**
- 3. To the extent that changes to the ICF edge proposal are necessary to permit an origination charge, those changes will need to be discussed further.**
- 4. Recent proposed mergers (and, perhaps, others yet to be proposed) create questions relevant to a discussion of the edge proposal.**

For example, if consummated, would the mergers change either the networks or the edges of the merging companies so significantly that the ICF's edge proposal will become unworkable?

#### **Terminating Transport**

- 5. The ICF proposal that “(t)he weighted average of common and dedicated switched terminating transport rates across a [CRTC] holding company may not exceed \$.0095 per terminating minute” should be available as a default for CRTC's. In addition a second default of \$.019 per terminating minute should be available for those CRTC's where the holding company terminating transport distance averages over 200 miles. In the absence of a negotiated intercarrier agreement or adoption of this default charge for**

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<sup>1</sup> Unique circumstances exist in Alaska that may require modification of this section, and potentially other sections as well, for application in that state.

**terminating transport, CTRCs may petition State commissions as required by current law. State Commissions should be able to consolidate the proceedings involving rural telephone companies and to designate rates that would be applicable for all the rural companies so consolidated.**

At several of the workshops Rural Alliance representatives proposed that terminating transport compensation be based on the distance of transport and the size of the trunk group. No stakeholders have provided quantitative cost information. This information is necessary to establish such a two dimensional metric. We suggest this subject be explored at a future workshop after the necessary data are made available. This provision is intended to address the extreme cases identified by ARIC where the terminating transport distances for some CTRCs are very long.

#### **IV. State Participation**

##### **State Participation Voluntary**

- 1. States should be able to elect to participate in the plan. A State that does not participate should not be under any obligation to modify the rates charged by its carriers.**

The Communications Act does not allow the FCC to preempt State commission authority over intrastate access charges. This intercarrier compensation proposal establishes strong incentives for States to participate voluntarily in a unified intercarrier compensation regime based on genuine federalism. In that way the plan is based on a traditional form of federalism similar to that used for highways, natural resources protection and education.

##### **States that do not Participate**

- 2. States that do not participate in a system of uniform charges should not have the authority described in I. through III. above.**

##### **Option for Total Company Ratemaking**

- 3. A State that does participate in the plan should have the option, if it in the future sets rates for any incumbent LEC based on a revenue requirements analysis, do so on a total company basis. That is, it may set intrastate rates so that the LEC has an opportunity to earn a reasonable return on its intrastate and interstate operations, after considering all interstate revenues, including SLC revenues.**

##### **Withdrawal Option**

- 4. A State may withdraw from participation:**
  - a. upon learning its initial allocation under the SAM;**

- b. if the FCC at any time fails to maintain SAM funding to a State at or above its initial allocation; or**
- c. if the FCC at any time reduces intercarrier compensation rates below the rates described in this plan without fully replacing the lost revenue with an additional SAM allocation.**

## **V. Procedural Issues**

### **Joint Board Referrals**

- 1. The FCC should consult with the Federal-State Joint Boards on Universal Service and Separations prior to adopting a plan for intercarrier compensation reform.**
- 2. After adoption of a plan for intercarrier compensation reform, the FCC should formally ask both Joint Boards for Recommended Decisions dealing with impacts of the intercarrier compensation reform plan in their areas of responsibility.**

Adoption of an intercarrier compensation reform plan by the FCC carries significant implications for policies that are part of the responsibilities of these Joint Boards. It is important that these Joint Boards be allowed to adopt Recommended Decisions for the FCC that deal with implementation issues.